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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Review.

The Indian Nuclear Test

India became the world's sixth nuclear power on May 18, when it detonated an underground nuclear device. The event occurred in the western part of the Great Indian Desert in Rajasthan, less than 50 miles from India's border with Pakistan.

According to the chairman of India's Atomic Energy Commission, Dr. H.N. Sethna, the "implosion" device was developed entirely by India, and all components, including the plutonium, were produced locally.

Indian officials told reporters that the device was buried at a depth of slightly more than 100 meters, and was fully contained.

Indian officials were quoted as saying that the purpose of the test was to develop atomic devices for peaceful uses, such as in mining, canal construction, and the deepening and widening of ports. Although the New Delhi press has reported that a series of nuclear explosions will be carried out, Dr. Sethna was noncommittal when asked if



Indian AEC Chairman Sethna and PM Gandhi
Announcing the test

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any more tests were planned. Addressing a news conference in Bombay last Monday, he said it would take six months to process the data collected from the May 18 test.

The nuclear materials for the test almost certainly came from the Canadian-built CIRUS research reactor at the Bhaba Atomic Research Center at Trombay. For a number of years, the Indians have been producing weapons-grade plutonium from the irradiated fuel used to power the reactor. This work has been done at an Indian-built chemical separation plant also located at Trombay.

The CIRUS reactor has been in full operation since 1963

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The only reactor safeguard agreed to by New Delhi was a written statement to the Canadians that the reactor and its products would be used only for peaceful purposes. Canada has long held that any explosion would be a violation of this agreement, but India has never accepted this interpretation.

New Delhi continues to deny any intention of producing nuclear weapons, but the step from exploding a nuclear device to that of producing a primitive bomb deliverable by aircraft is not a great one. Pressures on the Gandhi government to develop a military capability almost certainly will be great.

Development of long-range delivery systems for nuclear weapons would be a difficult and expensive problem for India because it does not have either bombers or missiles suitable for reaching distant targets. India's modest space program has concentrated on the development of sounding rockets and, based on its present level of technology, India probably could not develop an intermediate-range missile within the next ten years without substantial outside help.

THE POLITICAL FALLOUT

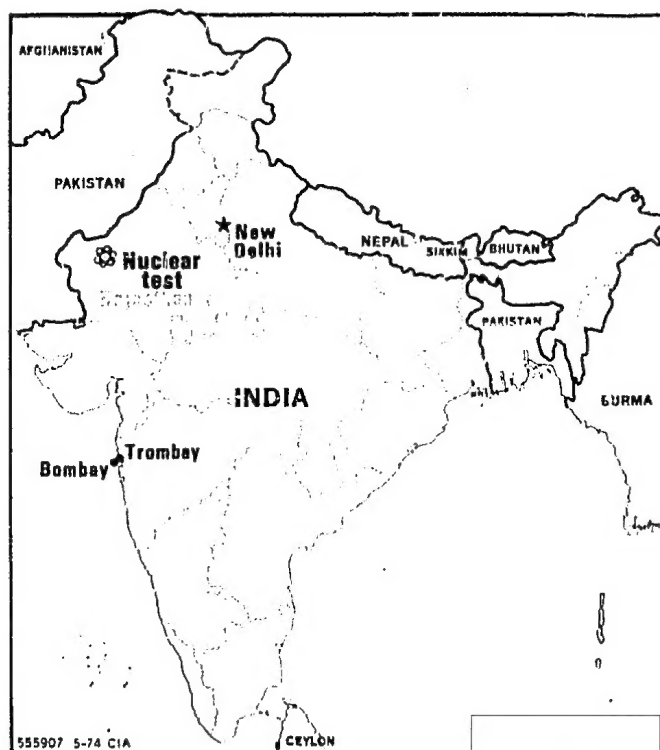
India

Initial reaction in India has been euphoric. Except for predictable criticism from one communist faction, the event has evoked widespread enthusiasm. This enthusiasm, however, is likely to dissipate before long because of the hardships imposed by growing inflation and food shortages. India's economic problems may even get worse if, because of the test, the country runs into trouble securing new help from abroad. New Delhi hopes to receive more than \$1 billion in aid this year to

help meet the soaring costs of imported petroleum, grain, and fertilizer. The Indians will probably also ask for rescheduling of existing debts.

Pakistan

The slow movement in recent months toward improved Indo-Pakistani relations may be interrupted as a result of the test. Prospects for an early resumption of trade and diplomatic relations are poorer than they were. Islamabad has said it will ask the permanent members of the UN Security Council to provide Pakistan with a "nuclear umbrella," but the Pakistanis are likely to concentrate on getting support and reassurance from China and the US. While the Pakistanis will probably not go so far as to seek a formal defense treaty with China, they will certainly press Peking to reiterate as strongly as possible China's support of Pakistan's territorial integrity. Prime Minister Bhutto no doubt would like the CENTO countries to issue a joint condemnation of the Indian test, but his government will not place much reliance on CENTO itself to protect Pakistan's security.



USSR

Moscow's desire to maintain close relations with New Delhi will color the way it handles India's decision to join the nuclear club, but the Soviets too will worry about the implications.

On the surface, it would appear that India's move is a net plus for the USSR. Moscow and New Delhi are close and the move will enhance India's position vis-a-vis China. Soviet leaders, however, share the concern that as more nations acquire the capacity to develop nuclear weapons, there is a greater danger these weapons may some day be used. They lobbied hard, though unsuccessfully, to get India to sign the Non-Proliferation Treaty, and kept on trying to dissuade India from going nuclear.

intends to improve relations with both India and Bangladesh.

Chinese instincts in favor of a US naval presence in the Indian Ocean and warmer US-Indian ties are likely to be strengthened too. At the same time, Peking almost certainly would hope that the US presence would continue to serve as a restraint on India and the USSR and as an assurance to Pakistan against a nuclear India.

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The Soviets therefore are probably also concerned that, with India's entry into the nuclear club, a close relationship with the USSR may become less useful in Indian eyes. That relationship owes much to India's fear of China; with a nuclear explosion behind them, the Indians may come to feel somewhat better able to stand up to Peking.

The Soviet press will put the best possible face on India's move. Behind the scenes, however, the Soviets will seek reassurance that New Delhi meant what it said when it announced that India would not develop nuclear weapons.

China

Peking will presumably conclude that India has become a more important security problem than before the explosion. An India hostile to China, close to the USSR, and eventually with some kind of nuclear weapons delivery capability could in the long run complicate Peking's strategic situation. The Indian nuclear test thus may add some urgency to China's already evident desire to normalize relations on the subcontinent and improve Peking's position there. Early last week, Chou En-lai had told Bhutto that Peking

Iran

Although the Shah is unlikely to allow the Indian test to affect newly improved relations with New Delhi, he may be miffed at being upstaged by India. Even before the Indian test, the Shah had expressed interest in cooperating with the US to develop major nuclear energy facilities in Iran. So far, Iran has shown no interest in developing weapons-related technology. Unlike India, Iran has signed the Non-Proliferation Treaty.

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Latin America

In Brazil, the Indian test is likely to spur nuclear research and development. To many Brazilians, India has demonstrated that a developing country can achieve at least this attribute of great power status, and comment in the Brazilian press is tinged with admiration. The reaction in Argentina will probably be similar. Neither government has signed the Non-Proliferation Treaty.

USSR-US: Detente Despite Concerns

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The Soviets are showing more concern about the implications of the Watergate affair, but they continue to take an optimistic line on the durability of US-Soviet detente.

Prominent Americanologist Georgy Arbatov told Ambassador Stoessel last week that the internal situation in the US was causing uneasiness within the leadership, and the embassy reports that there have been other signs of increased Soviet concern. For example, Soviet officials are showing great interest in the state of US preparations for the June summit.

Moscow continues to support the President on Watergate while treating the matter with circumspection. On May 16, in the Soviets' first public report on Watergate since the release of the transcripts in late April, Tass summarized the President's interview in the *Washington Star-News*, noting his statement that he would not resign under any circumstances. Tass said that the Watergate affair is being blown out of proportion by the President's political adversaries. A public lecturer in Leningrad echoed this line on May 19, blaming opponents of detente, bent on blocking the forthcoming summit, for the President's "very, very difficult position."

Prompted by their Watergate concerns, the Soviets are giving new emphasis to the "historical" factors that lie behind US-Soviet detente. *Pravda* on May 18 reiterated the Soviet view that detente enjoys the support of most Americans,

including business and political leaders. This broad consensus, according to *Pravda*, permits "US leadership circles" to pursue a policy of improved relations with the USSR despite opposition by "the military-industrial complex, Zionists, and extremist right-wing circles," and despite the "complexities and contradictions of the internal political situation."

The Soviets are evidently anxious to strengthen this consensus, especially in Congress. Last month, they rolled out the red carpet during the visit of Senators Scott and Kennedy. This week, they dispatched a high-level Supreme Soviet delegation to Washington to inaugurate a parliamentary exchange program. On his arrival in the US, Boris Ponomarev, head of the Soviet delegation and a ranking member of the CPSU, stressed the importance of closer ties between the parliamentarians of both countries "in the present-day conditions."

Moscow seems resolved to ride out this unsettled period without fundamental changes in policy toward the US. According to Arbatov, a strong proponent of detente, the Soviet leadership recognizes the uncertainties and complexities introduced by political developments in the West, but remains determined to "make irreversible" the relaxation of international tension. Arbatov noted that in six months or a year, detente may resume its earlier pace, and that, meanwhile, it is important to preserve the gains that have already been made.

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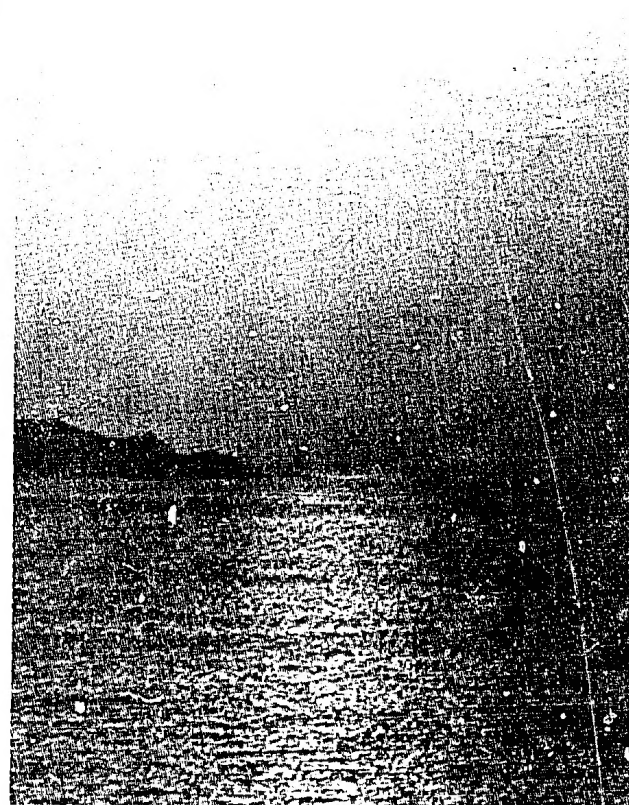
Views on Law of the Sea

With the Law of the Sea conference in Caracas less than a month away, the Soviets appeared anxious during recent consultations with US officials to cooperate in establishing mutually acceptable positions. Moscow is in substantial agreement with the US on most Law of the Sea issues, although it is still working out the specifics of its policy. For example, the Soviets noted that they were still studying how the seabed limits should be defined.

In recent weeks the Soviets have made a significant shift by agreeing to accept a 200-mile economic zone in return for the coastal states' acceptance of a 12-mile limit to territorial waters, freedom of navigation through international straits, and freedom of scientific research. As a world naval power, the Soviets appear committed to retaining as much freedom of navigation and of economic use of the sea as possible.

Under the Soviet proposal on the 200-mile economic zone, which has already been presented to several third-world countries, the coastal state could take as much fish as it wanted from its zone. This concept probably caused some bureaucratic discord in Moscow, since it is conceivable that some coastal states might eventually harvest so much of their fish resources that little would be left for the Soviets in some of their traditional fishing areas. The Soviets probably calculate that most coastal states do not yet have this fishing capacity, however, and hope that this concession will make some of the developing coastal states more amenable to Soviet desires on other issues.

The US-Soviet consultations devoted considerable attention to other aspects of the fisheries problem. While the Soviets are willing to accept coastal-state jurisdiction within 200 miles, they do not want any form of coastal-state authority or preferential rights beyond that limit. The Soviets also insist on absolute right of access to the unused portion of the allowable catch within the 200-mile zone. At present, the Soviets seem to believe that this allowable catch should



be based on the recommendation of an "international fisheries organization," but they apparently do not foresee any enforcement power for such a body. The Soviets also are concerned about the problem of imprisonment of their fishermen. They expressed preference for a US proposal for coastal-state right of inspection and arrest, after which the vessel would be returned to the flag state for trial and punishment.

The Soviets were also eager to avoid any abrogation of the principle of freedom to conduct marine scientific research. They envisioned the exclusion of scientific research installations from rules governing other offshore installations in the 200-mile economic zone. The Soviets even mentioned giving less-developed countries research vessels or training to deter them from trying to restrict scientific research.

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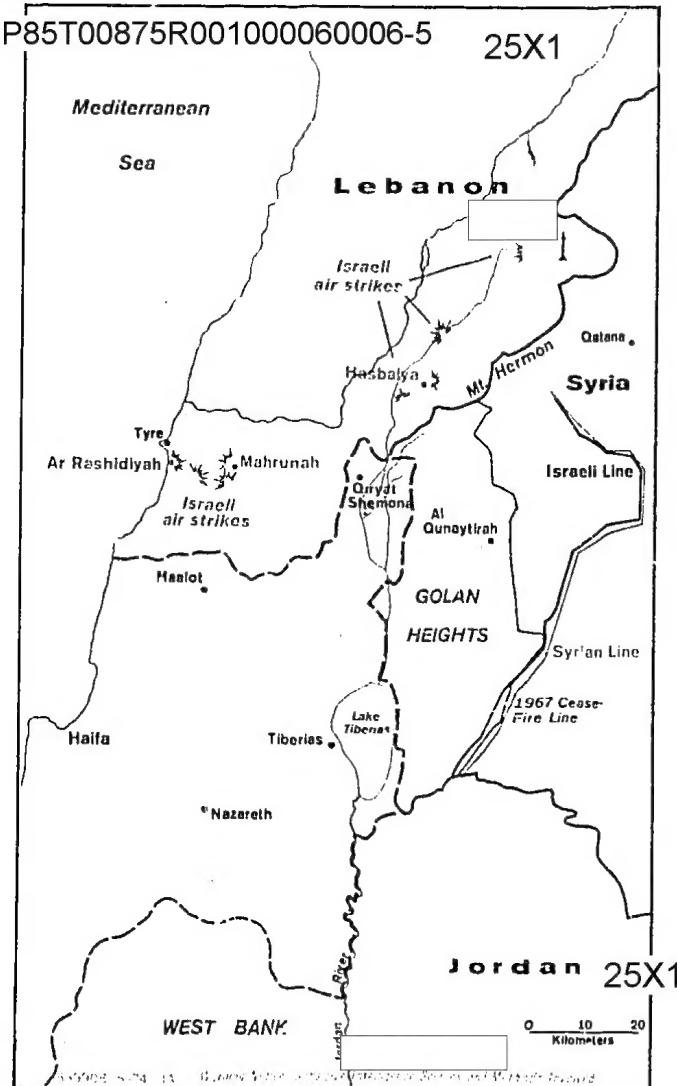
ISRAEL-SYRIA-LEBANON: PUNITIVE RAIDS

The focus of fighting on the northern front shifted this week from the Syrian sector to Lebanon as the Israelis continued punitive strikes on fedayeen bases and facilities in the wake of the May 15 terrorist attack at Maalot.

Israeli aircraft attacked fedayeen targets in southern Lebanon and near Mount Hermon several times. An Israeli military spokesman said the attacks were part of a "new phase" in Israel's war against Arab guerrillas, an indication that Tel Aviv intends to continue strikes at fedayeen forces inside Lebanon.

Over the weekend, Israeli naval patrol boats shelled the Palestinian refugee camp at Ar Rashidiyah, the second largest camp in Lebanon. At least five persons were killed in the attack and twelve were wounded. Beirut claimed to have damaged at least one of the Israeli vessels, but Tel Aviv reported that all ships returned safely to port. Israeli and Lebanese troops also skirmished several times during the week, but only light casualties were reported. Casualty figures from the Israeli raids on Palestinian camps late last week indicate that around 50 people were killed and perhaps 250 wounded.

Ground fighting this week between Syrian and Israeli forces was light, with exchanges confined to sporadic tank, artillery, and mortar fire. Israeli aircraft also flew reconnaissance missions and defensive patrols over the Golan Heights and southern Lebanon.



ISRAEL

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FIGHTING THE TERRORISTS

During the past week, the caretaker government, intensified its efforts to prevent further fedayeen terrorist activity in Israel and the occupied territories. Strict security measures—including roadblocks, curfews, reinforced police and army patrols, and search operations by helicopter—were instituted throughout much of the country and in the occupied territories. Israeli Army engineers laid additional minefields, and built more fences and watchtowers along the Israeli-Lebanese border. The government also exhorted the Israeli populace to join recently re-established armed civil guard forces to help patrol schools, factories, and public gathering places. The growing anti-Arab mood of the Israeli populace contributed to a noticeable increase in tension between Arabs and Israelis and led to numerous minor incidents between the two groups.

As might be expected, the government is clearly not satisfied with adopting only passive defensive measures to stop terrorist activity. Since the terrorist attack in Qiryat Shemona last month, Israeli authorities have arrested several hundred suspected Arab terrorists and sympathizers in the occupied West Bank. These arrests have sparked widespread protests from West Bank Arab mayors and led to demonstrations in two large West Bank towns.

Israeli military raids on Palestinian camps in Lebanon during the week are also part of the effort to strike directly at the fedayeen. Speaking to the Knesset on May 20, Prime Minister Meir said that the government's anti-terrorist campaign must be systematic, continuous and daring. Defense Minister Dayan added that the government cannot succumb to blackmail by the terrorists and is better off to kill them.

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USSR - MIDDLE EAST

THE QUEST FOR NEW FRIENDS

The Soviets showed a new dimension of their Middle East policy last week in wooing Libya, a country about which they have had little good to say in recent years. Moscow's objectives seem clear enough—to reverse the ebb of their over-all influence in the region by establishing new relationships and to isolate, and hence bring pressure on Egypt.

Moscow's new tactics became evident last week during Libyan Prime Minister Jallud's six-day visit. Jallud had numerous discussions with top Soviet leaders, including Brezhnev and Kosygin. While the concrete results of these discussions were apparently not great, they had the effect of putting the Egyptians on notice that Moscow was prepared to make friends with Cairo's Arab rivals.

Both Libya and the USSR seemed to be searching for common ground during the Jallud visit, but given their differing views on the Middle East and the world in general, it was not easy. The final communique lacked any specifics on the Middle East, mentioning only that "frank" discussions yielded a "proximity of positions." The wording makes it clear that Moscow and Tripoli continue to differ on political tactics in the region. The Soviets, for example, have given full support to the Geneva conference, but the Libyans have opposed any negotiations with the Israelis.

During the week, press reports from Moscow speculated that the visit would result in military and economic aid agreements. To date, only a trade accord has been announced, and there was no reference in the communique to military aid or cooperation.

Another development probably aimed at increasing Egypt's isolation in the Arab world was the announcement by Tass early in the week that Defense Minister Grechko would visit Algeria at the end of May. No details have been given, but it seems likely that the purpose of the visit will be as much political as military. Grechko's last visit

to the Middle East was a highly publicized trip to Iraq in late March, which also seemed to be associated with Moscow's effort to display an active role in Middle Eastern affairs.

Grechko will undoubtedly discuss the lagging Soviet military aid program in Algeria. Although the USSR is Algeria's main arms supplier, Algiers has drawn few Soviet military aid credits in the last two years. Moscow may view a revitalized military aid program as a way to strengthen its influence in Algeria. The Soviets may also feel the need to solidify their position in Algeria because of reports that Algiers will soon restore relations with the US.

REACTION IN EGYPT

The Egyptians will be somewhat reassured by the noncommittal tone of the Soviet-Libyan communique, but they will still interpret the new Moscow-Tripoli relationship as a bad omen for Egypt.

As the Egyptians see it, the Soviets' principal aim in Libya is to isolate Egypt and the other Arab states with friendly ties to the US. Cairo accuses Moscow of attempting to link Libya, Iraq, and possibly Syria against Egypt. Implicit in these apprehensions is a particular concern that Libya and the Soviets will together succeed in aborting the Syrian-Israeli disengagement talks.

Cairo already believes that the two countries have been urging the Syrians to be intransigent, and the failure of negotiations would leave Egypt open to attack as the only Arab state to have compromised with the Israeli enemy. Cairo editorialists have criticized President Qadhafi's "new wedding" with Moscow, but criticism of Moscow has been more cautious. Although the Arab Socialist Union recently resurrected the charge that the Soviets oppose military action against Israeli, President Sadat himself spoke more hopefully last weekend of a "more positive phase" in the relationship with Moscow.

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FRANCE: FROM GAULLISM TO GISCARDISM

The election on May 19 of Independent Republican Valéry Giscard d'Estaing does not portend dramatic change for France. Throughout the campaign, he identified himself with Gaullist foreign policy, which had received high marks from the electorate. In the domestic field, however, the voters clearly expect him to make some changes.

The left and the unions see the new President as the symbol of the conservative right and will not be likely to make his task easier. Labor unrest could erupt in the fall if the left and the unions are not satisfied with his implementation of social and economic reforms. Giscard is aware of the problem and is prepared to act quickly on moderate social welfare programs.

He has promised to:

- increase benefits for the elderly, families, women, and the unemployed;
- give high priority to public transport, housing, and hospitals;
- decrease the gap between the lowest and highest wage scales;
- reform the value-added tax; and
- decentralize government activities and responsibilities.

In foreign affairs, Giscard is expected to improve the tone of Franco-US relations, but not to change basic foreign and defense policies, which are based on national interests. He will probably strive to maintain French "independence" of the superpowers and French "leadership" in Europe. He is likely to be somewhat more willing than his predecessors to make the concessions necessary for the European Communities—and the political consultations in particular—to be more effective.

The President's immediate intentions will become clearer next week after he names his cabinet. Giscard has said he intends to take office

formally and to appoint his prime minister on May 27. The members of the government will be named before the first cabinet meeting scheduled for May 29. Parliament will then resume its normal spring session, and the prime minister will probably address the assembly with a general policy speech. This declaration does not require a vote of confidence and real debate on the new government's program may not begin until the parliament reconvenes in October.

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DENMARK: A CLIFFHANGER

Despite the precarious position of his minority government, Prime Minister Poul Hartling, with the support of the non-Socialist parties, managed to push controversial tax measures through parliament last week. The tax increases, which went into effect on May 17, caused widespread unrest among the normally undemonstrative Danes. A wave of strikes and worker demonstrations swept the country following parliamentary approval of the proposals.

The tax measures, which will remain in effect through this year, raise the price of some items such as cars, household appliances, liquor, and cigarettes by as much as 25 percent. The new taxes will primarily affect imports and were introduced to remedy Denmark's balance of payments deficit, which has doubled over the past year.

After a week of tortuous on-again/off-again negotiations aimed at reaching a compromise and of threats by Hartling to call elections if his proposals were voted down, the government managed to put together a majority of 106 in the 179-seat parliament. The Prime Minister's success does not reflect general approval of the tax package, but was possible because several of the parties are sharply divided and fear elections.

After the Social Democrats decided to vote against the bill, it became clear that Mogens Glistrup's Progressive Party, Denmark's second

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largest, held the key to the outcome. Glistrup contributed to the suspense by announcing early in the negotiations that his party would not abstain on the final vote. Placed in the position of holding the government's fate in his hands, however, Glistrup probably did not want to be blamed for Hartling's downfall, and the Progressives voted for the tax measures.

The Social Democrats, who hold the largest number of parliamentary seats, originally planned to abstain on the tax issue. They were aware that new elections would probably lead to the formation of a minority Social Democratic government and feared they would be forced to introduce measures similar to Hartling's to deal with Denmark's chronic trade deficit. The labor movement's unexpected vocal protest forced the party to vote against the bill, however, to appease its traditional source of support.

The government's most active supporters throughout the crisis, the Center Democrats and the Conservatives, feared the disastrous consequences of an election. Recent polls indicate that both parties have slipped badly since the last election.

Hartling's Moderate Liberals control only 22 seats. The parliamentary line-up makes the government's prospects dim and early elections a probability. At the root of the instability is the recent proliferation of splinter parties. In the election last December, the number of parties in parliament doubled from five to ten, primarily as a result of defections from the traditional parties.

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CONCERN OVER EURODOLLAR MARKET

The turbulent growth of the Eurodollar market as a consequence of the deposit of oil producers' funds and related lending has heightened concern among many bankers that the market is overextended.

Oil producers' surplus funds continue to flow into the Eurodollar market in large amounts. If present trends continue, the value of Euro-

dollar assets and liabilities will jump nearly 50 percent by the end of this year to about \$150 billion. This rapid growth is causing many financial analysts to re-evaluate the market's weaknesses, which include:

- the potential instability of the deposit base, particularly when a few oil producers control a substantial and growing proportion of the market's deposits;
- the absence of a lender of last resort to assist a bank in the event of an unexpected drawdown of deposits or other development that would erode the bank's liquidity;
- the extremely low and continually declining equity ratios of most of the banks active in the market;
- recent financial difficulties, most evident in the Franklin National Bank but involving other banks as well, which stem from unsuccessful speculation in foreign exchange.

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Although the failure of a major Eurodollar bank is still unlikely, the potential has increased.

US parent banks with access to the Federal Reserve as a lender of last resort would probably support imperiled overseas branches, but would be under no legal obligation to do so. Parent banks of other nationalities might have more difficulty in securing assistance, and again will be under no obligation to support their Eurodollar banking affiliates.

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PORTUGAL

THE JUNTA SETTLES IN

Interim constitutional measures promulgated by the junta last week have made the military the ultimate authority in Portugal during the life of the provisional government. President Spinoia has been given the principal role in overseeing the various instruments of government that will exercise power before general elections are held in 1975.

The constitutional amendments make the armed forces completely independent of the provisional government, while placing the chief of staff of the armed forces on an organizational par with the prime minister. They also separate political authority among six government entities, with the more important ones dominated by the military.

The junta, composed of seven senior military men, will continue. It is vested with the mandate of the Armed Forces Movement, which overthrew the Caetano regime. The junta's main responsibility is to ensure compliance with the program of the Armed Forces Movement and to uphold the constitution.



Foreign Minister Soares
Contacting the rebels

The council of state, which was virtually moribund during the days of Salazar and Caetano, has been expanded and given new life. It consists of the seven junta members, seven representatives of the Armed Forces Movement, and seven citizens "of recognized merit" to be named by President Spinoia. The provisional government must obtain the approval of the council of state on all significant matters of policy. The council of state may also declare any act of the provisional government unconstitutional.

The presidency has emerged as a separate government entity, with Spinoia the most powerful figure in Portugal. He will preside over the junta, the council of state, and the provisional government. He has been authorized to dismiss members of the provisional government, to direct foreign policy, and to serve as commander in chief of the armed forces. He can declare (in consultation with the council of state) a state of emergency and can suspend constitutional guarantees.

The 15 ministers in the provisional government—the fourth government component—will be responsible for day-to-day activities. The government will also nominate, by the end of this month, a commission to draft the electoral law. It will specify how the constituent assembly, the fifth organization, will be elected. The draft of the electoral law must be submitted to the council of state for approval before November 15.

Elections to the constituent assembly will take place no later than March 31, 1975, with the actual date to be set by the President. The assembly will meet within 15 days of its election and will draw up and approve a constitution within 90 days. Once the new constitution is approved, the assembly will disband, and general elections presumably will be held.

The courts have been designated as the sixth instrument of government. Not much attention has been given to their duties and it appears that military and civilian courts will continue to function much as they have in the past.

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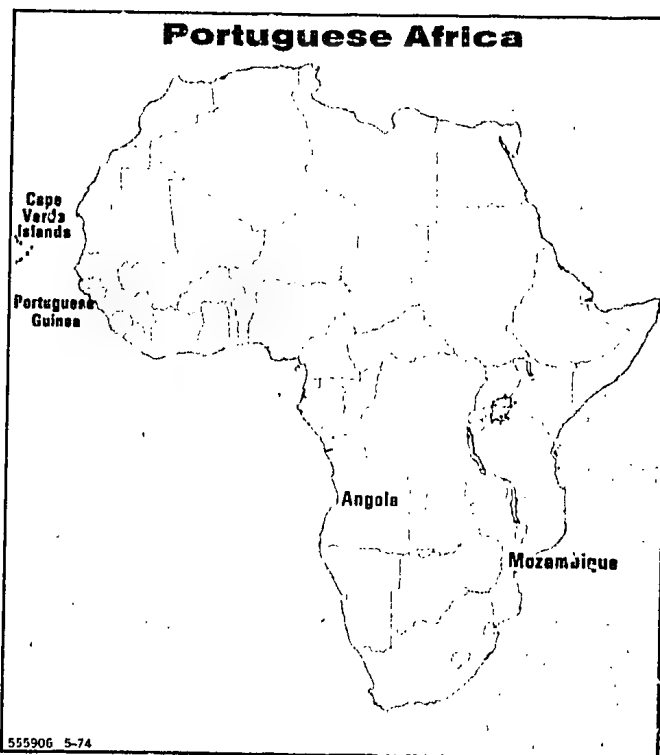
SEEKING ACCOMMODATION IN AFRICA

Lisbon, meanwhile, apparently expects that its policy of self-determination for the African territories will produce widely differing results. General Costa Gomes, the number-two man in the junta, expressed such a view privately to US officials on May 20. The general appeared committed to offering the territories a genuinely free choice.

Costa Gomes was optimistic about the direction being taken by relations between Lisbon and the rebels in Portuguese Guinea. Following contacts between rebel leaders and Foreign Minister Soares in Dakar last week, representatives from both sides are scheduled to open cease-fire negotiations in London on May 25. Lisbon recognizes the fact that the rebel organization is the only one of any consequence in Portuguese Guinea and apparently would be willing to agree to arrangements that would lead to rebel control of the entire territory in exchange for Portuguese retention of the Cape Verde Islands. Over the years, the rebel movement has claimed it also represents the islands.

Costa Gomes professed to believe that Angola's Africans may opt for some form of continued relationship with Portugal when given an opportunity to exercise self-determination. He based his view on the fact that antagonism between races and ethnic groups in the territory is minimal and that none of the three liberation groups is politically dominant or militarily strong enough to seriously challenge Portuguese forces.

About Mozambique, however, Costa Gomes was quite pessimistic; its black majority, he felt, would probably choose independence. The general noted that relations between the races have deteriorated rapidly since he was military commander there some five years ago. Costa Gomes also saw "Chinese influence" within the only significant liberation movement, the Front for the Liberation of Mozambique, as working against any continued association with Lisbon. He expressed concern that independence for Mozambique might lead eventually to civil war because of bitter ethnic rivalries among the Africans.

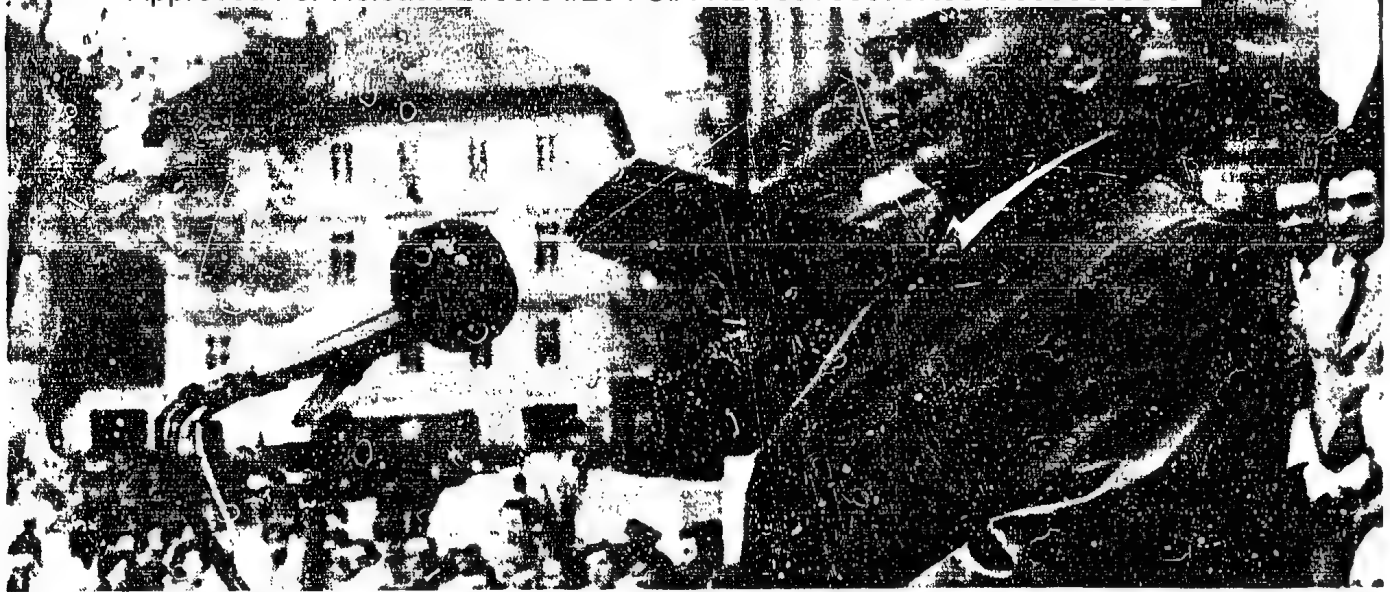


A delegation of former political prisoners from Mozambique, purportedly sent to Tanzania by the Portuguese to contact the insurgents, is now in Dar es Salaam. The insurgents have publicly denied any such contacts, however, and continue to press their military effort in central Mozambique.

The provisional government's commitment to self-determination for the territories, including the option of independence, was emphasized publicly this week by Interterritorial Minister Santos during a fact-finding tour of Mozambique and Angola. In a press conference in Lourenco Marques on May 21, Santos also promised revision of the law governing trade between Lisbon and the territories. The present law has allowed Lisbon to exploit the territories and has led to intense bitterness among local businessmen and consumers. Santos stated that the provisional government will create a "temporary instrument" to arbitrate labor disputes, a clear attempt to end the strikes that have spread throughout Angola and Mozambique in recent weeks.

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YUGOSLAVIA

TITO! TITO! TITO!

Celebrations of President Tito's 82nd birthday on May 25 are certain to include a public outpouring of adoration even more effusive than last year's. The event will be used to boost the morale of Yugoslavs still worried about a possibly troubled succession period.

Only last week, Belgrade took steps to guarantee a smooth transfer of power by installing a new collective presidency, reduced to nine members from the cumbersome 22-man body set up in 1971. It is headed by Tito, who broke precedent to accept the Federal Assembly's offer of life tenure as president. The remaining eight members are senior party officials, one from each of the six republics and two provinces. The new constitution, enacted in February, invests the collective with all the powers needed to take full charge when Tito dies. Tito's successor in the top federal party post will automatically also become a member of the collective presidency.

Other pre-succession preparations included the installation of a new bicameral Federal Assembly, whose primary role will be to help resolve regional differences through inter-republic "coordination commissions." The presence in the assembly of prestigious party leaders like Kiro Gligorov, a top-ranking economic theoretician, stresses the importance the regime attaches to ensuring that potentially destabilizing regional differences are resolved in ways acceptable to the party.

The regime also invested the internal security apparatus with new muscle. Both the minister of interior and the federal public prosecutor are now army generals on active duty. This seeming breach of last year's emphasis on civilian control over the military may signal a new effort to improve collaboration between the civilian leaders and the army, which is one of the strongest unifying forces in the nation. The regime's main message, however, is that any subversive activity by dissenters at home or emigres abroad will face stern preventive measures and prosecution—army style.

The same themes are expected to dominate the Yugoslav party's tenth congress that opens on May 27. Speeches at the gathering will emphasize the unity and discipline of the million-plus members of the League of Communists, which has indeed been galvanized over the past two years into a potent force for national unity. Moreover, organizational changes in the federal and regional parties, to be ratified at the congress, promise to give the party leaders in Belgrade even more direct control over grass-roots politics. The main instrument of this control will be the federal party's executive committee headed by Stane Dolanc, the committee's senior secretary and a prime candidate to succeed Tito as party leader.

The congress will be closely watched for evidence that Tito has finally chosen a party successor. Up to now, he has steadfastly refused to make his choice clear for fear of risking another conflict with an impatient and ambitious

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heir, as he had with Aleksandr Rankovic in 1966. Nevertheless, the urgency of dispelling the uncertainties of the succession could induce him to change his mind.

The congress will also endorse Tito's efforts to improve ties with the Soviets and their allies. Unlike the last congress in 1969, the conclave next week will be attended by high-level delegations from all the loyalist Warsaw Pact countries. Andrey Kirilenko, a Politburo member who often substitutes for Brezhnev, will head the Soviet delegation. Romania, on the other hand, is downgrading its delegation this time. In 1969, the two parties were in close agreement on the need to actively reject Soviet influence, but recent disagreements over the Middle East and Tito's warmer relations with Moscow have marred this relationship.

Tito will be physically taxed by the birthday ceremonies and the three-day congress. He is scheduled to give the opening address, and he will undoubtedly try to see as many of the 70-odd foreign delegation chiefs as he can. After the congress, he will rest for two weeks before leaving for Bonn in mid-June. Tito then will take a two-month vacation, twice as long as his normal summer respite.

ARMS SALES TO THE PERSIAN GULF

Belgrade is making a concerted effort to sell military equipment and to garner lucrative military-related service and construction contracts in the Persian Gulf area. Agreements concluded this spring with Iraq and Kuwait exceed \$100 million.

Yugoslavia is focusing on the wealthier Persian Gulf states, where ability to pay is not in question and long-term credits are unnecessary. Belgrade's sales campaign is based primarily on its own domestic economic needs—to increase export earnings to pay for higher priced oil imports, to finance its own arms imports, and to find outlets for its growing armament industry.

Last month, Yugoslavia negotiated its first arms agreement with Iraq. Belgrade will supply

about \$82 million worth of military equipment, including small arms, ammunition, gas masks, and other support equipment to be delivered through 1976.

In March, Belgrade concluded a large military aid contract with Kuwait under which Yugoslavia is to build two airfields and other military installations. Kuwait has also examined Yugoslav ground forces equipment, some of which may have been included in the agreement. Aside from 50 antiaircraft guns provided in 1970, this contract represents the first major military aid agreement between the two countries.

Abu Dhabi concluded its first arms accord with Belgrade last year for a small number of antiaircraft guns. These were delivered last November, accompanied by a ten-man Yugoslav military advisory team.

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Yugoslavia produces a wide range of conventional armament and has sold over \$400 million worth of military equipment and technical services to less-developed countries since the late 1950s. Belgrade has been most successful in marketing its 76-mm. pack howitzer, 20-mm. antiaircraft gun, various small arms and ammunition, and small naval craft. Yugoslavia does not produce armored vehicles, heavy artillery, high-performance jet aircraft, or other sophisticated weapons systems, and it has sold only a small number of domestically produced jet trainers.

Yugoslavia has extensive background in civil construction in less-developed countries, having built such projects as airfields, harbors, dams, and power plants. Belgrade's recent contract with Kuwait may presage further attempts to move into the military construction field. Abu Dhabi, which is seeking to expand its military logistics network, appears to be a likely candidate.

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USSR-CHINA: KEEPING THE LID ON

The Soviet Union sought last week to lessen the chance of any additional flare-up with China prior to the coming Soviet-US summit. On May 15, Moscow signed its annual trade agreement with Peking, and two days later the Soviets turned to the International Red Cross for assistance in obtaining access to the three-man Soviet helicopter crew that the Chinese have held since March. Perhaps the most significant move, however, was the publication of an article in the government newspaper *Izvestia* on May 16 that argued for a cautious, restrained policy toward China.

The article began with the standard Soviet attack on China's foreign policy, but it went on to say that there are "many indications" that not all Chinese leaders support Mao's anti-Sovietism. Claims by Moscow of dissent at leadership levels in Peking are unusual. Whether or not the Kremlin believes pro-Soviet forces exist in Peking, the allegation that they do—and might eventually come to power—can be used to counter arguments for a tougher line against Peking.

The article also catalogued Moscow's alleged attempts to improve relations between the two countries. It revealed that Peking turned down an offer by Moscow in June 1973 to hold summit-level talks, but added that the June offer and all other Soviet proposals still stand, including such offers as a nonaggression pact. The article glossed over the helicopter incident, citing it merely as proof that the Maoists would use "any pretext" to mask their own failings.

The article was signed by a regular and not particularly prestigious commentator on Sino-Soviet affairs, but the frequent references to the directives of the CPSU Central Committee probably were designed to give it a more authoritative ring. It probably was intended to balance the emotional anti-Chinese articles on the helicopter incident that appeared in *Red Star* and *Literary Gazette* two weeks ago. Those articles, and the



Soviet border guards on patrol

mildly threatening language of the third Soviet protest note to the Chinese in early May, had raised the possibility that Moscow might be preparing a full-fledged anti-Chinese propaganda campaign.

By the end of this week, in fact, *Literary Gazette* had toned down its handling of the incident. It carried letters—ostensibly from ordinary citizens—that seem to have been carefully worded to avoid fanning popular prejudices against all Chinese. The key point made is that China should settle the matter "quietly, without hysteria and hullabaloo."

One complicating factor in Moscow's over-all moderate approach, however, was the USSR's decision to publish the response it regularly makes when China annually challenges Soviet sovereignty over the strategically located island opposite Khabarovsk. In going public, the Soviets may be hoping to avoid a repetition of last year's incident when a Chinese ship appeared to be approaching Khabarovsk.

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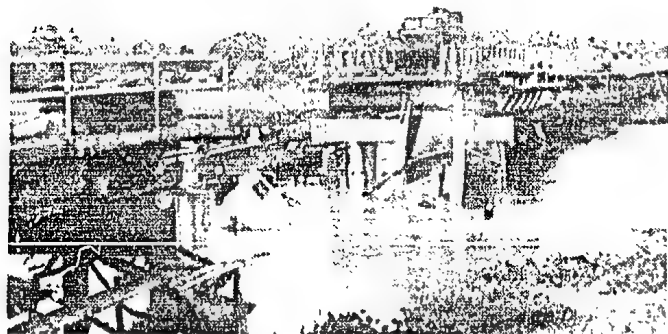
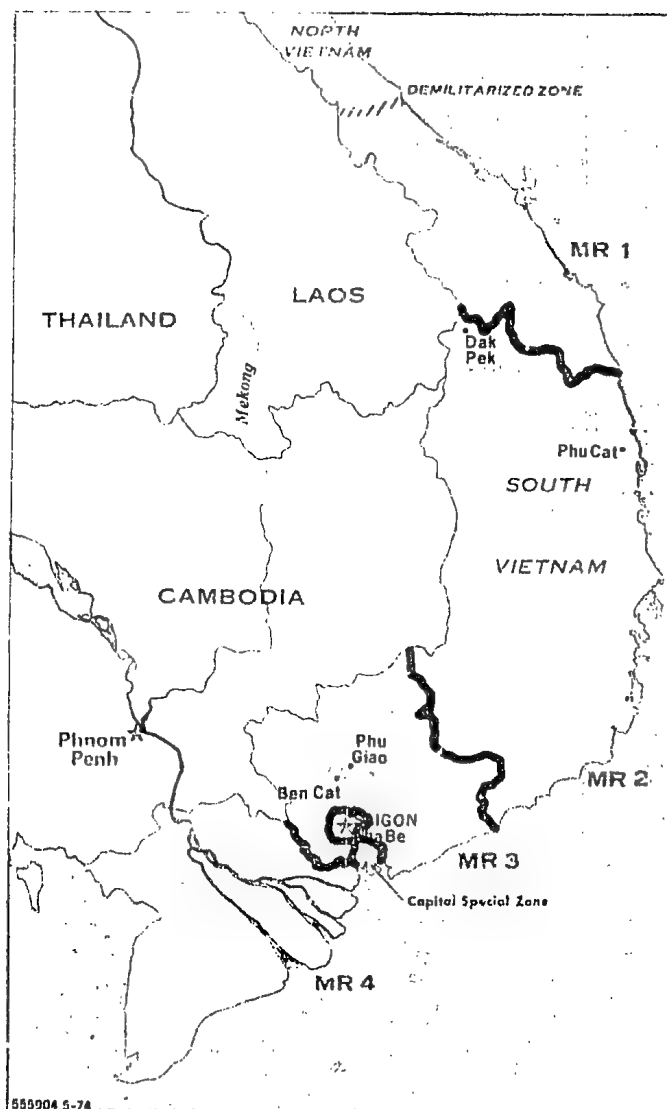
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SOUTH VIETNAM: THE FIGHTING TAPERS OFF

The upsurge in Communist military action that began late last week has tapered off in some areas, but is continuing in other regions. Of the five northern provinces of Military Region 1, only Quang Tri has remained untouched as the Communists hit resettlement sites, urban centers, and a number of military targets. In Quang Tin Province, stiff Communist opposition forced South Vietnamese troops to abandon their efforts to regain lost ground.

In the central provinces of MR 2, there is a temporary lull in ground action following the fall on May 16 of the government border base of Dak Pek, which is located deep within Communist territory. In coastal Binh Dinh Province, the Communists attacked the air base at Phu Cat, from which air strikes were being flown against North Vietnamese targets in Kontum in retaliation for the loss of Dak Pek. The Communists fired a number of rockets at the base and seized four nearby outposts. Just to the west, however, South Vietnamese Rangers scored a victory over a battalion-sized enemy force.

To the north of Saigon, two South Vietnamese divisions have frustrated major efforts by elements of the North Vietnamese 7th and 9th divisions to push salients into government-held territory at Ben Cat and Phu Giao in Binh Duong Province. The initial Communist attacks were directed against small outposts and villages—manned by territorial forces—which have been under Saigon's control since the cease-fire. The attacks probably were designed to lure government regulars out of their well-defended base camps in order to inflict heavy casualties on



Bridge blown up by sappers

them. Buoyed by the good showing of government troops in the fighting to date, senior South Vietnamese military officers believe that any new Communist attacks can be contained.

The increase in military action in MR 4 has been centered in the southern delta, where Communist attacks resulted in the loss of a number of territorial force positions. Small-scale harassing attacks and increased terrorism remain the rule in the northern delta provinces.

During this latest round of military action, the Communists have used a mix of regular and

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MORE RURAL WARFARE

Action this week was centered on the stretch of Route 4 between Kompong Speu and the seaport of Kompong Som. Insurgent ground units have begun to close in on Kompong Seila, one of two remaining garrison towns in this area, and there are signs that the Communists are trying to move artillery within range of the air base at Ream.

In the north, government defenders at the provincial capital of Kompong Thom continue to bear up well under Communist attacks. The build-up of Communist forces near Kompong Thom suggests that heavier fighting is likely. East of Phnom Penh, the provincial capital of Prey Veng also remains under pressure, but government troops there have been getting the best of the skirmishing along the city's defensive perimeter.

Closer to Phnom Penh, government forces have capitalized on Communist withdrawals to advance several miles north of Route 5. Lead units are now within six miles of the abandoned beachhead at the Tonle Sap River at Kompong Luong. These troops destroyed several barricades



the Communists had placed across the Tonle Sap to prevent the movement of foodstuffs to Phnom Penh.

ACADEMIC AGITATION

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BANGKOK BECKONS BUT HANOI DEMURS

During the Vietnam war, Hanoi regarded Thailand as a staunch ally of the US and hence an implacable enemy of North Vietnam. With the end of the war and the establishment of the Sanya government in Bangkok, the North Vietnamese reduced somewhat the vehemence of their propaganda attacks on the Thai and began to speak openly about the possibility of closer contacts. Through the first months of 1974, nothing resulted from this change, but there now appears to be some movement in the Hanoi-Bangkok relationship as a result of recent Thai initiatives. Hanoi has responded by further toning down its anti-Thai polemics but has stopped short of softening its tough conditions for better relations.

The catalyst in the current behind-the-scenes maneuvering appears to be Bangkok's Deputy Foreign Minister Chartchai, who has long been an active promoter of closer relations with Asian Communist states.

sider improved relations if the Thai would be forthcoming on [redacted] 25X1

- resolution of the problem of ethnic Vietnamese in Thailand;

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The editorial, however, refrained from the sort of acerbic language that Hanoi frequently aims at Bangkok. It was notably milder in tone, for example, than Hanoi's recent response to a Thai official's statement that North Vietnamese troops in Laos were a threat to Thailand.

Although Chartchai may succeed, as he did with the Chinese, in getting an emissary to Hanoi, North Vietnam's adamant line probably precludes any significant advance toward the establishment of diplomatic relations. It would almost certainly take a considerable scaling down of Hanoi's demands to bring about any real warming in relations between the two countries.

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Chartchai's history of exaggerating both Thai diplomatic initiatives and his own role in them makes it difficult to evaluate the current status of Thai - North Vietnamese relations. He floated a series of optimistic but misleading reports after his 1973 trip to Peking, for example, raising expectations that a Chinese-Thai rapprochement was imminent.

LAOS: POWER POLITICS

The Lao Communists continue to hold the initiative in the seven-week-old coalition government. Deputy Premier and Foreign Minister Phoumi Vongvichit has been a dynamic force in cabinet deliberations, and the Advisory Political Council's chairman, Prince Souphanouvong, has completely dominated the proceedings of that body. Buoyed by their success in preventing the opening of the rightist-oriented National Assembly two weeks ago, the Pathet Lao are pressing ahead with plans for a comprehensive national political program for the new coalition—including a new or substantially revised constitution that will better reflect their view of current political realities.

The North Vietnamese may have taken implicit note of the Thai initiatives in a May 12 editorial in the party newspaper *Nhan Dan*. The editorial basically reiterated Hanoi's standard line that the North Vietnamese were willing to con-

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CUBA: THE SUGAR BONANZA

Record world sugar prices and an improved harvest could boost Cuba's export earnings by some 40 percent this year to an estimated \$2 billion. The gain would erase most of Cuba's perennially large trade deficit and could possibly balance Havana's trade for the first time since the Castro take-over in 1959.

The 1974 Cuban sugar harvest, now in its final stages, will probably total nearly 6 million tons, some 10 percent above last year. Most of the gain reflects expanded acreage, increased use of fertilizers, and replantings.

Cuban sugar earnings this year could reach \$1.7 billion, up 70 percent over last year. Although the volume of sugar sold on the world market will rise only slightly, the proceeds from these sales will more than double to some \$900 million because of the record prices. The price of sugar on the world market has soared from 10 cents a pound in 1973 to almost 25 cents a pound. Sugar sales to the Communist world will also record a substantial increase, rising 15 percent in volume and somewhat in average price as well.

The sugar bonanza could lead to a shift in the direction of Havana's trade. The increase in hard currency earnings together with some \$1.2 billion in credits recently granted by Argentina point to an increase in trade with Cuba's non-Communist trading partners. Nevertheless, the Cuban economy will remain closely tied to the Communist world.

The Spartan lifestyle of the average Cuban is not likely to change significantly as a result of the improved trade picture. Although the supply of imported goods will undoubtedly increase, part of



Harvesting sugar cane
A record crop

the gain in earnings will probably be used to reduce Cuba's large trade deficit and to repay outstanding debt. Moreover, Havana's continuing emphasis on investment and local development projects precludes major improvements in the availability of consumer goods at the same time.

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VENEZUELA: NATIONALIZATION POLICIES

President Perez has moved boldly to speed the nationalization of petroleum and iron ore, and to extend government control over a number of other areas of intensive foreign investment. He has appointed a 36-member Petroleum Reversion Commission to oversee the take-over of oil company assets and has established a Superintendency of Foreign Investment to ensure that Venezuelans own 80-percent of three broad areas of public services within three years. Negotiations for nationalizing the iron-ore industry, which are apparently to be managed by a team drawn from several government departments, have already begun.

In his two major speeches on nationalization--on April 29 and May 16--Perez gave few details of the process he envisions. This vagueness is very likely calculated to generate as much domestic political support as possible, as well as to reassure the foreign interests involved that the nationalizations will be carefully studied and negotiated before implementation.

On two points, however, Perez has been clear. Venezuela's intention is to acquire only the assets of the foreign petroleum and iron-ore companies, and to consider net book value, with adjustments for outstanding debts, as the basis for compensation. This suggests that foreign participation will continue in management and distribution. The priority interest of the private companies is to maintain their access to the raw material. Thus, progress in the negotiations on compensation is likely to reflect the degree of access guaranteed by Venezuela.

25X1 After a brief period of shock and uncertainty, the foreign companies seem to have adopted a cautiously optimistic attitude.

The Petroleum Reversion Commission has been charged with determining a compensation formula within six months. Beyond the life of the commission, there are likely to be several more months of negotiations directly with the companies. The actual process of oil nationalization may not begin until late 1974 or early 1975. The take-over

of iron ore will probably be somewhat more rapid, if for no other reason than the absence of a study commission for that industry and the fact that direct negotiations are already under way.

In fact, Perez appears to be using reactions to the incipient nationalization of iron ore as a guide for his moves on petroleum. To some extent, he may also be pushing the iron ore issue to forestall the demand of his more radical supporters for immediate action on oil. Although elected by a large majority last December, and with his Democratic Action party in control of both houses of congress, Perez is moving cautiously.

His economic measures have received broad support from all parties of the left and from organized labor. The recently defeated Social Christian Party of former president Caldera, however, has opposed the means by which Perez intends to implement his goals, although the party supports the goals themselves. Perez is especially eager not to force the powerful local business community into an opposition role. In this regard, the minister of development recently issued a public statement denying rumors that the government will eventually make "drastic" changes in the private sector.

The prospect of nationalizations has drawn the most attention but is only part of Perez' economic package. He has also called for a broad restructuring of the domestic economy to ensure a more equitable distribution of wealth. His first step toward this new structure has been to ask congress for authority to issue economic decrees affecting wages, banking, and such "national enterprises" as utilities, broadcasting, printed news media, and marketing.

It is the sweeping nature of these proposed domestic programs that will slow Perez' over-all economic package, including nationalizations. Even the friendly congress is leary of too much of a good thing. It will give Perez the authority he seeks, but it has already moved to require him to account in detail for his exercise of that authority. Thus, Perez' nationalization of foreign companies will be restrained by political realities at home.

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Dominican Republic BALAGUER RE-ELECTED

Despite heavy rains and a boycott by the major opposition groups, Joaquin Balaguer was elected to his third consecutive term as president on May 16.

Although 48 percent of the 2 million persons registered to vote did not cast ballots, Balaguer was able to win about 200,000 more votes than he did in 1970. The only other presidential candidate, Lajara Burgos of the small right-wing People's Democratic Party, received about 15 percent of the vote.

Unofficial returns show that Balaguer's Reformist Party, under the country's proportional representation legislative system, could receive 85 of the 91 seats in the Chamber of Deputies. All 27 seats in the Senate apparently were won by the Reformist Party and its youth affiliate.

The President's major opposition, the Santiago Accord coalition, dropped out of the race at the last minute after charging that the government would not guarantee honest elections. Two other presidential candidates had pulled out of the race earlier after an opinion poll had shown them to have only a few percentage points of the votes.

The Accord, a mix of right- and left-wing parties, is claiming that the low voter turnout is evidence of general dissatisfaction with Balaguer and his two administrations. The Accord has already fired a verbal broadside at the government, charging that the lack of any meaningful opposition at the polls places in question the government's legitimacy. The secretary general of the Dominican Revolutionary Party, the strongest party in the coalition, has gone into hiding to dramatize alleged government plans "to consolidate the dictatorship" by killing him.

Such antics by the opposition probably will cause only minor problems for the government. The security forces appear to be ready to move against any left-wing terrorists who are stirred to action by clamorous post-election speechmakers.

The immediate challenge that Balaguer will face during his third administration is the high



President Balaguer
Another victory

rate of inflation, caused mainly by increases in the cost of petroleum and food. The President has indicated that his first approach to the problem will be to readjust price and wage control measures that were too touchy to handle before the election.

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URUGUAY: INDECISIVE COUP PLOTTERS

A power play among top army officers, which surfaced this week, temporarily diverted their attention from pressing economic concerns. The struggle may have been precipitated by the need to fill the vacancy caused by the death of Vice President Echegoyen last week. Disagreements between senior officers over how to direct the country, however, are of long duration. In any event, military hard liners succeeded in forcing the resignation of the army commander in chief, whom they have viewed as being too conciliatory to President Bordaberry.

Although almost all the top officers appear to have decided that they want to exercise direct control over the government, they cannot agree how to proceed.

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The tensions reflected in the current squabbling among the high command are in large measure the result of increasing pressure from a number of army majors and colonels to force economic and administrative reforms.

necessary to stimulate growth have an immediate inflationary impact.

From January through April, the cost of living index jumped 87 percent, forcing the junta to abandon its goal of keeping inflation under 100 percent for the year. Much of the impetus to higher prices initially came from rising petroleum and food costs and from a rapid expansion of the money supply. Compensatory wage adjustments have added to the inflationary pressure, although real wages remain slightly below January levels. Moreover, the junta is now privately conceding that unemployment is about 10 percent and could double during the year as businesses continue reducing employment to increase efficiency.

High-level frustration over the inability to contain inflation is rising. The free enterprise path that the military government has been following is as least as much a consequence of the regime's choice of civilian economic advisers as a reflection of its commitment to an economic philosophy. The junta's military advisory committee, which has been at odds with the team of civilian economic advisers for some time, advocates a more statist-populist approach. Personnel changes prompted by dissatisfaction with the state of the economy could thus signal basic changes in policy.

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There are signs that the military chiefs may now be willing to accept direct responsibility for economic policy, but there is no indication that they have developed a coherent plan for handling Uruguay's persistent economic problems of rampant inflation and stagnation. It appears likely that the policy disagreements that have prevented a major economic turnaround will continue.

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Removal of Economy Minister Leniz would be a key indicator.

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CHILE: INFLATION WOES

Economic recovery is proving to be a difficult process. The military government's policy of permitting much of the economy to operate under free market conditions in order to stimulate production has contributed to an unexpectedly virulent inflation. If inflation continues unabated, prices could increase as much as 500 percent this year. The dilemma facing the government is that measures to curb inflation tend to slow economic growth, while the investment expenditures so

Leniz recently called on manufacturers and merchants to absorb the latest round of wage increases and urged consumers to boycott products sold at outrageously high prices. He reportedly has replied to critics by arguing that the economic recovery program is viable and will work if given a chance. Leniz' fate and Chile's economic course hinge on whether the junta is ready to conclude that present policies have been given their chance—and have been found wanting.

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INTERNATIONAL: TALKING ABOUT DISARMAMENT

The spring session of the Conference of the Committee on Disarmament in Geneva concluded on May 23, with the Indian nuclear test of last week dramatically pointing up the conference's failure to halt a proliferation of nuclear explosions, even by one of its own nonaligned participants. No progress was registered on any of the perennial disarmament questions—the comprehensive nuclear test ban, the encouragement of more accessions to the Non-Proliferation Treaty, or the ratification of the biological weapons convention—although all were touched on in the speeches of the delegates.

The major topic of discussion at this session was a revised chemical warfare treaty tabled by Japan. The Japanese draft attempted to accommodate both the nonaligned and the developed countries represented at the conference: the former by the draft's emphasis on a comprehensive ban on chemical agents; and the latter by its gradual and discretionary approach to the destruction of chemical agents. The Japanese initiative is an effort to conclude a long, contentious, and so far fruitless endeavor to bring modern chemical warfare under international control. Most delegates welcome this new attempt to keep alive consideration of the subject, although the draft has not resolved contending interests.

The nonaligned still argue that the treaty's provisions allowing an indefinite period for destruction of chemical agents, would afford the major powers an opportunity to effectively negate progress toward disarmament. They also assert that, like the nuclear Non-Proliferation Treaty, the Japanese draft discriminates against "have-not" states.

The proposed Japanese treaty allows those possessing chemical warfare agents to determine when their stockpiles should be destroyed, while prohibiting those not having such a capability

from developing one. The list of agents to be banned is, initially at least, negotiable and this likewise does little to reassure the nonaligned about the intentions of the major powers to eliminate chemical warfare agents.

The US and its allies, on the other hand, have continued to assert the treaty must incorporate effective verification procedures. The Japanese treaty gives national verification agencies the prime responsibility for ensuring compliance with stockpile destruction and the ban on chemical agents. The enforcement responsibility of an international verification agency would remain to be negotiated. The US will not accept any system that does not accord primary verification and enforcement responsibilities to an international agency; from the US point of view, the Japanese treaty remains unsatisfactory. The issue of verification will probably be raised when technical experts meet this summer.

Enlargement of the conference's membership was also a principal question at this session. The two Germanies had earlier indicated their desire to join. In order to maintain the geographical and bloc balance in the 26-member committee, three nonaligned members—one each from Africa, Asia, and Latin America—will also be admitted, probably at the July session, with later pro forma approval of the committee's enlarged membership by the 29th General Assembly. In discussing the proposed enlargement, all countries emphasized the desirability of maintaining the limited size of the conference to preserve its negotiating character, but a number of nonaligned states also expressed interest in restructuring the forum. By eliminating the co-chairmanship held by the US and the USSR, the nonaligned countries believe that the conference could become more democratic and less subject to the negotiating initiatives of the super powers.

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